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UK requires £1 trillion of additional investment over the next decade to deliver targeted economic growth rates, Capital Markets Of Tomorrow report finds

6 September 2024: The Capital Markets Industry Taskforce (CMIT) is pleased to announce the publication of the Capital Markets Of Tomorrow report (CMOT). Commissioned by CMIT and led by Sir Nigel Wilson, the report is intended to create a model which will help deliver long term growth for the UK economy.

The report quantifies the scale of additional investment required by the UK economy at £100 billion per annum for the next decade, amounting to an extra capital demand of £1 trillion over the period. Investment on this scale would support a 3% economic growth rate and, while ambitious, this is achievable given the UK's underlying strengths and investment requirements.

The report identifies that significant further investment will be required in areas that have been under-invested historically. These extra sums per year currently stand at £20 to £30 billion for housing, £50 billion for energy and £8 billion for water.

There will also be demand for venture capital – in the region of £20 to £30 billion – which will be crucially important as it provides the flow of growth companies maturing through start-up, to scale-up, to grown-up. In the UK, we have world-class universities and the potential to create large technology-driven growth businesses in areas such as renewables, financial services, AI, Quantum Computing and Life Sciences. But the UK hasn't developed an Apple (\$3.4 trillion) or a Microsoft (\$3 trillion). Indeed, each of these companies has a market capitalisation bigger than all of the FTSE 100 combined.

The challenge is therefore to make the UK a competitive market into which to invest. The Capital Markets Of Tomorrow will have to deliver that capital and allocate it efficiently. In order to achieve this, the report outlines that CMOT would support incentivising investors where the global pitch needs to be levelled, whilst investors remain in charge and responsible for making the right fiduciary decisions.

The report consciously took a broad view of Capital Markets and hence their capacity to supply that demand. While listed equity is vital and it sits at the apex of the supply side, the VC and scale-up aspects are crucial to the flow of home-grown companies for future listings. Debt capital markets are also vital, including a well-functioning gilt market, not least for funding infrastructure and public services.

In its report, CMOT identifies four priority areas in order to drive this agenda forward:

1. **Maximising the green opportunity:** Transitioning to Net Zero will require additional investment of between £35 and £50 billion every year until 2030. Britain itself has a large number of untapped geographical and intellectual resources, as well as a world-leading financial services industry, which makes us particularly well-positioned to take this opportunity.
2. **Creating UK advantage:** Greater UK investment in our domestic companies could generate substantial economic benefit. At present, there is limited investment into our capital markets by large UK institutions, with our fast-growth scale-ups receiving a disproportionate share of their funding from US VCs. The report identifies a number of levers that the UK could pull to materially unlock incremental investment demand.
3. **Restoring the UK's Risk Appetite:** Since the financial crisis, UK markets have become known for their focus on managing downside risks – often for good reason. But taking an appropriate amount of informed and rewarded risk is an inherent part of effective and well-functioning capital markets. To help achieve the Government's growth ambitions, we need a market that is 'risk on' rather than 'risk off' – a return of an insurgent and celebrated entrepreneurial mindset.

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4. **Restoring the Power of UK Retail Investors:** Historically, Britain has had a strong tradition of pensions savings and direct retail investment in shares. This peaked with the privatisations and de-mutualisations of the 1980s and 1990s and continued through the dotcom boom of the early 2000s. However, retail share ownership levels among UK households have more than halved over the past 20 years – the effect being to create a significant amount of “dry powder” that could be put to better use.

It is important to reiterate that significant progress has already been made in this field, including the Mansion House Reforms, Kalifa Review on Fintech and Jonathan Hill’s UK Listing Review. Valuable work referenced by CMOT also includes that from industry groups such as UK Finance, TheCityUK, the City of London Corporation, the Quoted Companies Alliance, the Investor Forum and the Investment Association. The input of regulators such as the FCA, FRC and PRA was also sought.

Other members of the core authorship group included Mark Austin CBE, Partner at Latham & Watkins, John Godfrey, interim Managing Director, Public Affairs, Policy & Research at TheCityUK, Alex Hickman, Senior Managing Director at Teneo and former Special Adviser on Business to the Prime Minister, Penny James, Senior Independent Director at Hargreaves Lansdown and former CEO of Direct Line Group and Conor Lawlor, Managing Director, Capital Markets & Wholesale Policy, UK Finance.

CMIT Conference – 6 September 2024

The CMIT Conference, which takes place on 6 September, will bring together senior participants from across the UK’s private and public capital markets, providing a forum for leaders to listen, think and brainstorm.

The event will be attended by a number of different stakeholders from public and private markets, and members of Government, regulators and policymakers, and will begin with a market open at 8.00am.

The morning session of the conference itself will begin at 9.00am, with an outline of progress over the past 18 months provided by Dame Julia Hoggett, CEO, LSE plc, and Chair of CMIT. This will then be followed by a series of presentations and panels on different aspects of the UK’s capital markets.

Sir Nigel Wilson, CMOT Chair, said:

“I was honoured to be asked by CMIT to chair the Capital Markets Of Tomorrow report to create a model which will help long term growth for the UK economy. This goal we collectively set ourselves closely aligned with the previous government’s capital market reforms and also with the new Labour Government’s growth plans. We hope this report gives an honest appraisal of both the challenges and the opportunities, demonstrating that we are at a turning point – away from a cycle of negativity and towards a future where our capital markets can once again deliver their true potential.

“There has never been such a large amount of money globally available and seeking investment opportunities. Capital pools include domestic and international capital sources such as sovereign wealth funds, retail investment, private equity ‘dry powder’, and the UK is fortunate in that we have £6 trillion of long-term capital within our pension and insurance industries. In other words, the supply of capital for growth is available.”

Dame Julia Hoggett, CEO, LSE plc, and Chair of CMIT, said:

“We welcome the findings of the Capital Markets Of Tomorrow report and thank those, in particular Sir Nigel, who were involved in producing it. It is vital that we continuously consider how best to develop the UK’s capital markets to ensure that great companies can start, grow,

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scale and stay here, and that our capital markets provide our pension and policy holders and savers with good returns and a prosperous old age. As the report sets out, we have a great base in the UK on which to build, including world-leading universities and a highly regarded financial services sector. But the opportunities need to be seized, and we will give ourselves the best chance of doing so if we work collaboratively across the capital markets spectrum towards our same goal of growth.”

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About CMIT

The UK Capital Markets Industry Taskforce (CMIT) comprises CEOs, Chairs and industry leaders representing private and publicly listed companies, asset owners and managers, and the advisory services that support their access to capital and investments – representing the full end-to-end ecosystem of the public and private capital markets.

The Taskforce aims to maximise the impact of capital market reforms, ensuring the UK is the place where great companies can start, grow, scale and stay and to help investors access assets that provide returns and support the real economy in which they live and work.

Current Taskforce members are below:

- Exchange: Dame Julia Hoggett, CEO, LSE plc (Chair)
- Lawyer: Mark Austin CBE, Partner at Latham & Watkins, Chair of the UK Secondary Capital Raising Review and former Chair of the FCA's Listing Authority Advisory Panel
- Corporate and Investment Bank: Katharine Braddick, Group Head of Strategic Policy and Advisor to the Group CEO, Barclays plc
- Asset Manager: Peter Harrison, CEO, Schroders
- Venture Capital Investor: Klaus Hommels, VC and Lakestar Founder
- Pension Funds/Insurer: Sir Nicholas Lyons, Chair, Phoenix Group
- Private Company CEO: Matthew Scullion, CEO and Founder, Matillion
- Advisory/Audit/Accountancy: Joe Cassidy, Head of Corporate Strategy for KPMG UK and the Head of Financial Services Strategy for KPMG UK
- Listed Company Chair: Sir Jonathan Symonds, Chairman, GSK plc

Further information can be found at:

Website: <https://capitalmarketsindustrytaskforce.com/>

LinkedIn: <https://www.linkedin.com/company/cmit-capital-markets-industry-taskforce/>